

ALBION HOUSING COMMISSION
ALBION, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Albion Housing Commission	County
Fiscal Year End September 30, 2005	Opinion Date June 15, 2006	Date Audit Report Submitted to State June 27, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

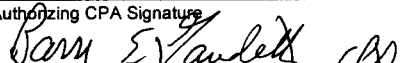
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Internal Control and Compliance Reports	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number 231-946-8930	
Street Address 1107 E. Eighth Street		City Traverse City	State MI
Zip 49686			
Authorizing CPA Signature 	Printed Name Barry E. Gaudette, CPA		License Number 11050

ALBION HOUSING COMMISSION
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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Albion Housing Commission
Albion, Michigan

I have audited the accompanying financial statements of the business-type activities of the Albion Housing Commission, Michigan, a component unit of the City of Albion, as of and for the year ended September 30, 2005, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Albion Housing Commission, Michigan, as of September 30, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 6(D), the Housing Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended and interpreted as of September 30, 2005.

Albion Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated June 15, 2006, on my consideration of Albion Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise Albion Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Albion Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Barry E. Fendley, CPA PC

June 15, 2006

ALBION HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
September 30, 2005
=====

Albion Housing Commission, created in 1950, by the City of Albion, provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Albion Housing Commission consists of two programs. The first is owned housing, consisting of 218 units of public housing and the second is the capital funding program. Albion Housing Commission had total revenues of \$1,268,485 that includes \$334,681 in rental payments and \$894,570 in federal assistance. Total operating expenses were \$1,047,308, that includes \$362,400 in administrative expenses, \$104,917 in utilities, \$326,096 in ordinary maintenance expenses, and \$126,996 in depreciation expense. Total revenues increased by \$353,737 from the prior year and operating expenses increased by \$44,022 from the prior year for a net increase of \$309,715, due in part to the increase in federal grants.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by \$3,324,214. The Housing Commission's total net assets increased by \$213,137 from the prior year. The increase is attributable in part to the federal grant increasing from the prior year.

Total assets of the Housing Commission were \$3,474,678 including \$1,040,841 of current assets and \$2,433,837 of net property, plant, and equipment assets. The Housing Commission had current liabilities of \$78,915. Assets increased, in part, by \$221,177 from the prior year for the same reason mentioned in the previous paragraph.

The financial condition of the Housing Commission continues to improve.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.

- * Statement of Activities - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Commission's current position

The City of Albion has become economically and financially challenged with the closing of the hospital, a major foundry, decline in school enrollment, school closings, the closing of Department of Human Services office and many other businesses. With the above, the Albion Housing Commission has suffered a high volume of vacancies.

The Albion Housing Commission has many negative renters, and minimum renters. The housing commission also suffers from a high amount of drug activity, and high crime rates due to the economic status of the City of Albion. Beginning June 1, 2006 through August 31, 2006, the housing commission has entered into a Cooperative Agreement with the City of Albion Public Safety Department to help out with the crime and drugs. We are hopeful that with the presence of public safety this will help draw more applicants to Northview Homes.

With high vacancy rates in Northview Homes, this will ultimately have a financial impact on the Albion Housing Commission.

The Albion Housing Commission has programs for its residents and have made many improvements during the prior fiscal year to our community such as sidewalk repair, bathroom renovations, kitchen renovations, carpet, updated fixtures, resurfaced parking, siding replacement, window replacement, elevator update, and we have added a beauty salon. The Housing Commission has committed to capital outlays for the fiscal year ended September 30, 2006 for a pole barn, bathrooms at Peabody, and weather conditioning the maintenance building.

Again, due to the high amount of vacancies in Northview Homes, this will have a significant impact on the Albion Housing Commission's financial position and PHAS score.

Ann Kemp, Executive Director
1300 Cooper Street
Albion, Michigan 49224-4009

Financial Analysis of the Housing Commission

The following condensed statement of net assets show a summary of changes for the years ended September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Current assets	\$1,040,841	\$1,068,735	\$ (27,894)
Property and equipment	<u>2,433,837</u>	<u>2,192,806</u>	<u>241,031</u>
Total assets	<u>\$3,474,678</u>	<u>\$3,261,541</u>	<u>\$ 213,137</u>
Current liabilities	\$ 78,915	\$ 76,843	\$ 2,072
Noncurrent liabilities	<u>71,549</u>	<u>81,661</u>	<u>(10,112)</u>
Total liabilities	<u>150,464</u>	<u>158,504</u>	<u>(8,040)</u>
Net assets:			
Invested in capital assets	2,433,837	2,192,806	241,031
Unrestricted net assets	<u>890,377</u>	<u>910,231</u>	<u>(19,854)</u>
Total net assets	<u>3,324,214</u>	<u>3,103,037</u>	<u>221,177</u>
Total liabilities and net assets	<u>\$3,474,678</u>	<u>\$3,261,541</u>	<u>\$ 213,137</u>

Financial Analysis of the Housing Commission (continued)

The following table summarizes the statement of activities of the Housing Commission for the years ended September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 334,681	\$ 350,590	\$ (15,909)
Nondwelling rent	<u>5,095</u>	<u>4,908</u>	<u>187</u>
Total operating revenues	<u>339,776</u>	<u>355,498</u>	<u>(15,722)</u>
Operating expenses:			
Administration	362,400	373,801	(11,401)
Tenant services	20,738	23,648	(2,910)
Utilities	104,917	97,885	7,032
Ordinary maintenance and operation	326,096	310,521	15,575
Protective services	762	1,176	(414)
General expenses	105,399	99,052	6,347
Casualty losses		(31,035)	31,035
Depreciation	<u>126,996</u>	<u>128,238</u>	<u>(1,242)</u>
Total operating expenses	<u>1,047,308</u>	<u>1,003,286</u>	<u>44,022</u>
Operating income(loss)	<u>(707,532)</u>	<u>(647,788)</u>	<u>(59,744)</u>
Non-operating revenue:			
Interest income	22,152	14,598	7,554
Other income	11,987	14,300	(2,313)
Operating grants	577,836	397,531	180,305
Capital grants	<u>316,734</u>	<u>132,821</u>	<u>183,913</u>
Total nonoperating revenue	<u>928,709</u>	<u>559,250</u>	<u>369,459</u>
Change in Net Assets	<u>\$ 221,177</u>	<u>\$ (88,538)</u>	<u>\$ 309,715</u>

FINANCIAL STATEMENTS

ALBION HOUSING COMMISSION
STATEMENT OF NET ASSETS
September 30, 2005
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ASSETS

Current Assets:	
Cash	\$ 684,874
Accounts receivable-dwelling rents	12,475
Allowance for doubtful accounts	(5,488)
Investments-unrestricted	324,149
Prepaid expenses	<u>24,831</u>
Total Current Assets	<u>1,040,841</u>
Property and Equipment:	
Land	19,144
Buildings	9,144,043
Equipment	451,720
Building improvements	<u>2,234,315</u>
	11,849,222
Less: accumulated depreciation	<u>(9,415,385)</u>
Net Property and Equipment	<u>2,433,837</u>
Total Assets	<u>\$ 3,474,678</u>

See notes to financial statements

ALBION HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2005
=====

LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 32,607
Tenant security deposit liability	23,934
Accrued expenses	11,149
Deferred revenues	<u>11,225</u>
Total Current Liabilities	78,915
Noncurrent liabilities:	
Accrued compensated absences	<u>71,549</u>
Total Liabilities	<u>150,464</u>
Net Assets:	
Invested in capital assets	2,433,837
Unrestricted net assets	<u>890,377</u>
Total Net Assets	<u>3,324,214</u>
Total Liabilities and Net Assets	<u>\$ 3,474,678</u>

See notes to financial statements

ALBION HOUSING COMMISSION
STATEMENT OF ACTIVITIES
Year Ended September 30, 2005
=====

OPERATING REVENUES:

Dwelling rent	\$ 334,681
Nondwelling rent	<u>5,095</u>

Total operating revenues	<u>339,776</u>
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OPERATING EXPENSES:

Administration	362,400
Tenant services	20,738
Utilities	104,917
Ordinary maintenance and operation	326,096
Protective services	762
General expenses	105,399
Depreciation	<u>126,996</u>

Total operating expenses	<u>1,047,308</u>
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Operating income(loss)	<u>(707,532)</u>
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NONOPERATING REVENUES:

Investment interest income	22,152
Other income	11,987
Operating grants	577,836
Capital grants	<u>316,734</u>

Total nonoperating revenues	<u>928,709</u>
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Change in net assets	221,177
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Net assets, beginning	<u>3,103,037</u>
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Net assets, ending	<u><u>\$ 3,324,214</u></u>
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See notes to financial statements

ALBION HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended September 30, 2005

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CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 327,236
Cash payments to other suppliers of goods and services	(409,901)
Cash payments to employees for services	(481,602)
Cash payments for in lieu of taxes	<u>(25,761)</u>
Net cash (used) by operating activities	<u>(590,028)</u>

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES:

Tenant security deposits	(1,314)
Operating grants	577,836
Other revenue	<u>11,987</u>

Net cash provided by noncapital financing activities	<u>588,509</u>
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CASH FLOWS FROM CAPITAL AND RELATED

FINANCING ACTIVITIES:

Capital grants	316,734
Payments for capital acquisitions	<u>(368,027)</u>

Net cash (used) by capital and related financing activities	<u>(51,293)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES:

Investments reduced	42,334
Receipts of interest and dividends	<u>22,152</u>

Net cash provided by investing activities	<u>64,486</u>
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Net increase(decrease) in cash	11,674
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Cash, beginning	<u>673,200</u>
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Cash, ending	<u><u>\$ 684,874</u></u>
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ALBION HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2005
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RECONCILIATION OF CASH AND CASH
EQUIVALENTS PER STATEMENT OF CASH
FLOWS TO THE BALANCE SHEET:

Cash	\$ 684,874
Cash and cash equivalents per balance sheet	<u>\$ 684,874</u>

SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:

Operating income(loss)	\$(707,532)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	126,996
Bad debt allowance change	5,488
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(7,004)
Prepaid expenses	(1,250)
Increase (decrease) in liabilities:	
Accounts payable	8,285
Accrued wages/payroll taxes	3,199
Accrued compensated absences	(11,235)
Accrued payments in lieu of taxes	(1,439)
Deferred revenues	<u>(5,536)</u>
Net cash (used) by operating activities	<u>\$(590,028)</u>

See notes to financial statements

ALBION HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Albion Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

Albion Housing Commission is a component unit of the City of Albion, a Michigan home rule City. The Housing Commission is a Public Housing Agency created by the City of Albion on July 10, 1950, consisting of a five member board appointed by the City manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Albion Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract, C-3043, the Housing Commission constructed, maintains and operates 218 units of subsidized housing in the City of Albion, Michigan.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Activities and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities,

equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Albion Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$100 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	15 - 25 years
Furniture, equipment and machinery	7 - 10 years
Building improvements	15 - 25 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-

of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave not used by employees may be accumulated up to two weeks upon approval of the Executive Director. An employee who is permanently separated by reason of resignation, retirement, death or termination shall be paid, in a lump sum at his/her current rate of pay for all unused vacation leave.
- * Sick leave shall accumulate at the rate of one (1) day of each thirty (30) calendar days of service. A regular employee leaving the service of the Housing Commission, by reason of resignation, retirement, death or termination, will be paid in a lump sum 100% of all accumulated sick leave at the employee's current rate of pay. Each regular full time employee shall be given the option of cashing in accumulative sick leave at the end of every fiscal year which exceeds 60 days. Employees are only allowed to cash in a maximum of fifteen (15) days per fiscal year.
- * Personal leave is earned at a rate of three days per year. Unused personal leave cannot be accumulated.

The amount of accumulated benefits at September 30, 2005, was \$79,499, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan City, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$684,874 and the bank balance was \$703,916 of which \$703,916 was covered by federal depository insurance and a collateral agreement.

Investments

The Housing Commission had the following investment accounts as of September 30, 2005:

American Federal (savings #117266)	\$	79
American Federal (money market #117266)		9,165
Linsco Financial Services (money market #1117-5091)		309,449
LaSalle Bank (money market #60-S102-41-2)		<u>5,456</u>
		<u>\$ 324,149</u>

Interest Rate Risk - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- | | | | |
|----|----------------------------------|---|----------|
| 1. | U.S. Treasury Notes | - | 100%; or |
| 2. | U.S. Treasury Notes and/or Bonds | - | 75% and |
| 3. | Mortgage Backed Securities | - | 25% |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the following collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the combined statement of net assets follows:

Carrying amount of deposits	\$ 684,874
Investments	<u>324,149</u>
Total	<u>\$ 1,009,023</u>
Cash and cash equivalents:	
Enterprise activities	\$ 1,028,181
Enterprise activities - deposits in transit	12,025
Enterprise activities - checks written	
in excess of deposits	<u>(31,183)</u>
Total	<u>\$ 1,009,023</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At September 30, 2005, the receivables were \$12,475 with \$5,488 estimated as uncollectible. Bad debt expense was \$5,488.

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs". There were no interfund payables to the Low Rent Program from the Capital Fund Program as of September 30, 2005

There was an individual fund operating transfer during the fiscal year of \$69,956 from the capital fund program to the low rent program.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Balance</u> <u>09/30/04</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>09/30/05</u>
Low Rent Program				
Land	\$ 19,144	\$	\$	\$ 19,144
Buildings	10,732,770		1,588,727	9,144,043
Furniture, equip. & machinery - dwellings	83,586	7,975		91,561
Furniture, equip. & machinery - administration	243,370	43,318		286,688
Building improvements		<u>1,588,727</u>		<u>1,588,727</u>
	11,078,870	<u>\$1,640,020</u>	<u>\$1,588,727</u>	11,130,163
Less accumulated depreciation	<u>(9,288,389)</u>	<u>\$ (116,907)</u>	<u>\$</u>	<u>(9,405,296)</u>
Total	<u>\$ 1,790,481</u>			<u>\$ 1,724,867</u>
Capital Fund Program				
Furniture, equip. & machinery - administration	\$	\$ 73,471	\$	\$ 73,471
Building improvements	<u>402,325</u>	<u>243,263</u>		<u>645,588</u>
	402,325	<u>\$ 316,734</u>	<u>\$</u>	719,059
Less accumulated depreciation		<u>\$ (10,089)</u>	<u>\$</u>	<u>(10,089)</u>
Total	<u>\$ 402,325</u>			<u>\$ 708,970</u>
Combined Totals				<u>\$ 2,433,837</u>

NOTE 5: INVESTED IN CAPITAL ASSETS

The following is a summary of the activity in the Invested in Capital Assets account:

	<u>Invested in</u> <u>Capital Assets</u>
Balance, beginning (contributed capital)	\$ 2,192,806
Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital	<u>241,031</u>
Balance, ending	<u>\$ 2,433,837</u>

NOTE 6: OTHER INFORMATION

A. Pension Plan

The Housing Commission participates with the City of Albion where each employee is covered under a defined benefit plan with the Michigan Municipal Employees Retirement System (MERS) that provides for annual employer contributions with complete vesting after ten (10) years. At December 31, 2004, the date of the last completed actuarial evaluation, the Housing Commission and the City of Albion's (Municipality) termination liability for retirement benefits for nonunion members was \$3,591,828. The present value of accrued benefits available to meet this obligation were \$3,619,194. The Valuation of the Assets for the Municipality as of December 31, 2004 was \$5,735,159, leaving an overfunded balance of \$2,115,965. There are 18 active nonunion members, 10 vested former nonunion members and 38 nonunion retirees and beneficiaries. The Municipality had nonunion employee payroll of \$670,261, but did not have to make an employer contribution since there was an overfunded balance.

Further details are available from MERS at (800) 767-6377.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

D. Implementation of New Accounting Standard

As of and for the year ended September 30, 2005, the Housing Commission implemented GASB Statement Number 34 - *Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that

focus on a government's major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

E. Commitments

A former employee is on paid administrative leave.

NOTE 7: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes two separate programs which provide housing assistance and grant programs. Segment information for the year ended September 30, 2005, was as follows:

	Low Rent Program	Capital Fund Program
Condensed Statement of Net Assets		
Current assets	\$ 1,040,841	\$
Property and equipment	1,724,867	708,970
Total assets	<u>\$ 2,765,708</u>	<u>\$ 708,970</u>
Current liabilities	\$ 78,915	\$
Noncurrent liabilities	71,549	
Total liabilities	<u>150,464</u>	
Net assets:		
Invested in capital assets	1,724,867	708,970
Unrestricted net assets	890,377	
Total net assets	<u>2,615,244</u>	<u>708,970</u>
Total liabilities and net assets	<u>\$ 2,765,708</u>	<u>\$ 708,970</u>
Condensed Statement of Activities		
Dwelling rent	\$ 334,681	\$
Nondwelling rent	5,095	
Depreciation	(116,907)	(10,089)
Other operating expenses	(920,312)	
Operating(loss)	(697,443)	(10,089)
Nonoperating revenues:		
Investment interest income	22,152	
Other income	11,987	
Operating transfers in (out)	69,956	(69,956)
Operating grants	507,880	69,956
Capital grants		316,734
Change in net assets	(85,468)	306,645
Beginning net assets	<u>2,700,712</u>	<u>402,325</u>
Ending net assets	<u>\$ 2,615,244</u>	<u>\$ 708,970</u>
Condensed Statement of Cash Flows		
Net cash provided(used) by:		
Operating activities	\$ (590,028)	\$
Noncapital financing activities	588,509	
Capital & related financing activities	(51,293)	
Investing activities	64,486	
Net increase(decrease)	11,674	
Beginning cash and cash equivalents	<u>673,200</u>	
Ending cash and cash equivalents	<u>\$ 684,874</u>	<u>\$</u>

SUPPLEMENTARY INFORMATION

ALBION HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
September 30, 2005
=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
ASSETS		
Current assets:		
Cash	\$ 684,874	\$
Accounts receivable-dwelling rents	12,475	
Allowance for doubtful accounts- dwelling rents	(5,488)	
Investments-unrestricted	324,149	
Prepaid expenses	<u>24,831</u>	
Total current assets	<u>1,040,841</u>	
Property and equipment:		
Land	19,144	
Buildings	9,144,043	
Equipment	378,249	73,471
Building improvements	<u>1,588,727</u>	<u>645,588</u>
	11,130,163	719,059
Less accumulated depreciation	<u>(9,405,296)</u>	<u>(10,089)</u>
Net property and equipment	<u>1,724,867</u>	<u>708,970</u>
Total Assets	<u>\$ 2,765,708</u>	<u>\$ 708,970</u>

Totals

\$ 684,874
12,475

(5,488)
324,149
24,831

1,040,841

19,144
9,144,043
451,720
2,234,315
11,849,222
(9,415,385)

2,433,837

\$ 3,474,678

ALBION HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
 September 30, 2005
 =====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 32,607	\$
Tenant security deposit liability	23,934	
Accrued expenses	11,149	
Deferred revenues	<u>11,225</u>	<u> </u>
Total current liabilities	78,915	
Noncurrent liabilities:		
Accrued compensated absences	<u>71,549</u>	<u> </u>
Total liabilities	<u>150,464</u>	<u> </u>
Net assets:		
Invested in capital assets	1,724,867	708,970
Unrestricted net assets	<u>890,377</u>	<u> </u>
Total net assets	<u>2,615,244</u>	<u>708,970</u>
Total Liabilities and Net Assets	<u>\$2,765,708</u>	<u>\$ 708,970</u>

Totals

\$ 32,607
23,934
11,149
11,225

78,915

71,549

150,464

2,433,837
890,377

3,324,214

\$ 3,474,678

ALBION HOUSING COMMISSION
COMBINING STATEMENT OF ACTIVITIES
 Year Ended September 30, 2005
 =====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 334,681	\$
Nondwelling rent	<u>5,095</u>	<u></u>
Total operating revenues	<u>339,776</u>	<u></u>
OPERATING EXPENSES:		
Administration	362,400	
Tenant services	20,738	
Utilities	104,917	
Ordinary maintenance and operation	326,096	
Protective services	762	
General expenses	105,399	
Depreciation	<u>116,907</u>	<u>10,089</u>
Total operating expenses	<u>1,037,219</u>	<u>10,089</u>
Operating income(loss)	(697,443)	(10,089)
NONOPERATING REVENUES (EXPENSES) :		
Investment interest income	22,152	
Other income	11,987	
Operating transfers in (out)	69,956	(69,956)
Operating grants	507,880	69,956
Capital grants	<u></u>	<u>316,734</u>
Total nonoperating revenues (expenses)	<u>611,975</u>	<u>316,734</u>
Change in net assets	(85,468)	306,645
Net assets, beginning	<u>2,700,712</u>	<u>402,325</u>
Net assets, ending	<u>\$2,615,244</u>	<u>\$708,970</u>

Totals

\$ 334,681
5,095

339,776

362,400

20,738

104,917

326,096

762

105,399

126,996

1,047,308

(707,532)

22,152

11,987

577,836

316,734

928,709

221,177

3,103,037

\$ 3,324,214

ALBION HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
 Year Ended September 30, 2005
 =====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 327,236	\$
Cash payments to other suppliers of goods and services	(409,901)	
Cash payments to employees for services	(481,602)	
Cash payments for in lieu of taxes	<u>(25,761)</u>	
Net cash (used) by operating activities	<u>(590,028)</u>	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Tenant security deposits	(1,314)	
Operating transfers in (out)	69,956	(69,956)
Operating grants	507,880	69,956
Other revenue	<u>11,987</u>	
Net cash provided by noncapital financing activities	<u>588,509</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants		316,734
Payments for capital acquisitions	<u>(51,293)</u>	<u>(316,734)</u>
Net cash (used) by capital and related financing activities	<u>(51,293)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments reduced	42,334	
Receipts of interest and dividends	<u>22,152</u>	
Net cash provided by investing activities	<u>64,486</u>	
Net increase(decrease) in cash	11,674	
Cash, beginning	<u>673,200</u>	
Cash, ending	<u>\$ 684,874</u>	<u>\$</u>

Totals

\$ 327,236

(409,901)

(481,602)

(25,761)

(590,028)

(1,314)

577,836

11,987

588,509

316,734

(368,027)

(51,293)

42,334

22,152

64,486

11,674

673,200

\$ 684,874

ALBION HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2005
=====

	Low Rent	Capital
	Program	Fund
	Program	Program
	<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH
EQUIVALENTS PER STATEMENT OF
CASH FLOWS TO THE BALANCE SHEET:**

Cash	\$ 684,874	\$ _____
Cash and cash equivalents per balance sheet	<u>\$ 684,874</u>	<u>\$ _____</u>

**SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:**

Operating income(loss)	\$ (697,443)	\$ (10,089)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	116,907	10,089
Bad debt allowance change	5,488	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	(7,004)	
Prepaid expenses	(1,250)	
Increase (decrease) in liabilities:		
Accounts payable	8,285	
Accrued wages/payroll taxes	3,199	
Accrued compensated absences	(11,235)	
Accrued payments in lieu of taxes	(1,439)	
Deferred revenues	<u>(5,536)</u>	<u> </u>
Net cash (used) by operating activities	<u>\$ (590,028)</u>	<u>\$ _____</u>

Totals

\$ 684,874

\$ 684,874

\$ (707,532)

126,996
5,488

(7,004)
(1,250)

8,285
3,199
(11,235)

(1,439)
(5,536)

\$ (590,028)

ALBION HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended September 30, 2005
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing</u> <u>Major - Direct Program</u>		
2005	Low Rent Public Housing	14.850	\$ 507,880
	<u>Public and Indian Housing</u> <u>Major - Direct Program</u>		
2005	Capital Fund Program	14.872	<u>386,690</u>
	Total		<u>\$ 894,570</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the
accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

ALBION HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
 Year Ended September 30, 2005
 =====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 684,874	\$
100	Total cash	<u>684,874</u>	
	Receivables:		
126	A/R-tenants-dwelling rents	12,475	
126.1	Allowance for doubtful accounts- dwelling rent	(5,488)	
120	Total receivables, net of allowance for doubtful accounts	<u>6,987</u>	
	Current Investments:		
131	Investments-unrestricted	<u>324,149</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	<u>24,831</u>	
150	Total current assets	<u>1,040,841</u>	
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	19,144	
162	Buildings	9,144,043	
163	Furn, equip & mach-dwellings	91,561	
164	Furn, equip & mach-admin.	286,688	73,471
165	Building improvements	1,588,727	645,588
166	Accumulated depreciation	<u>(9,405,296)</u>	<u>(10,089)</u>
160	Total fixed assets, net of accumulated depreciation	<u>1,724,867</u>	<u>708,970</u>
180	Total noncurrent assets	<u>1,724,867</u>	<u>708,970</u>
190	Total Assets	<u>\$ 2,765,708</u>	<u>\$ 708,970</u>

Totals

\$ 684,874

684,874

12,475

(5,488)

6,987

324,149

24,831

1,040,841

19,144
9,144,043
91,561
360,159
2,234,315
(9,415,385)

2,433,837

2,433,837

\$ 3,474,678

ALBION HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended September 30, 2005
=====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES AND EQUITY/NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 8,285	\$
321	Accrued wage/payroll taxes payable	3,199	
322	Accrued compensated absences-current portion	7,950	
333	Accounts payable-other government	24,322	
341	Tenant security deposits	23,934	
342	Deferred revenues	<u>11,225</u>	
310	Total current liabilities	78,915	
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>71,549</u>	
300	Total liabilities	<u>150,464</u>	
	Equity:		
508.1	Invested in capital assets	<u>1,724,867</u>	<u>708,970</u>
508	Total equity	1,724,867	708,970
	Net Assets:		
512.1	Unrestricted net assets	<u>890,377</u>	
513	Total equity/net assets	<u>2,615,244</u>	<u>708,970</u>
600	Total Liabilities and Equity/Net Assets	<u>\$2,765,708</u>	<u>\$ 708,970</u>

Totals

\$ 8,285

3,199

7,950

24,322

23,934

11,225

78,915

71,549

150,464

2,433,837

2,433,837

890,377

3,324,214

\$ 3,474,678

ALBION HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended September 30, 2005
=====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 334,681	\$
704	Tenant revenue-other	<u>5,095</u>	
705	Total tenant revenue	339,776	
706	HUD PHA grants	507,880	69,956
706.1	Capital grants		316,734
711	Investment income-unrestricted	22,152	
715	Other revenue	<u>11,987</u>	
700	Total revenue	<u>881,795</u>	<u>386,690</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	190,576	
912	Auditing fees	4,500	
914	Compensated absences	7,920	
915	Employee benefit contributions-adm.	79,380	
916	Other operating-administrative	80,024	
	Tenant Services:		
924	Tenant services-other	20,738	
	Utilities:		
931	Water	39,703	
932	Electricity	28,907	
933	Gas	36,307	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	138,208	
942	Ordinary maint & oper-mat'ls & other	41,841	
943	Ordinary maint & oper-contract costs	88,565	
945	Employee benefit contributions-ordinary maintenance	57,482	
953	Protective services-other	762	
	General expenses:		
961	Insurance premiums	70,250	
962	Other general expenses	1,500	
963	Payments in lieu of taxes	24,322	
964	Bad debt-tenant rents	5,488	
968	Severance expense	<u>3,839</u>	
969	Total operating expenses	<u>920,312</u>	
970	Excess operating revenue over operating expenses	<u>(38,517)</u>	<u>386,690</u>

	<u>Totals</u>
\$	334,681
	<u>5,095</u>
	339,776
	577,836
	316,734
	22,152
	<u>11,987</u>
	<u>1,268,485</u>

190,576
4,500
7,920
79,380
80,024

20,738

39,703
28,907
36,307

138,208
41,841
88,565

57,482
762

70,250
1,500
24,322
5,488
<u>3,839</u>

<u>920,312</u>

<u>348,173</u>

ALBION HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2005
 =====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
974	Depreciation expense	<u>116,907</u>	<u>10,089</u>
	Total other expenses	<u>116,907</u>	<u>10,089</u>
900	Total expenses	<u>1,037,219</u>	<u>10,089</u>
	Other Financing Sources(Uses):		
1001	Operating transfers in	69,956	
1002	Operating transfers out	<u> </u>	<u>(69,956)</u>
	Total other financing sources(uses)	<u>69,956</u>	<u>(69,956)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	(85,468)	306,645
1103	Beginning Net Assets	<u>2,700,712</u>	<u>402,325</u>
	Ending Net Assets	<u>\$ 2,615,244</u>	<u>\$708,970</u>

Totals

126,996

126,996

1,047,308

69,956
(69,956)

221,177

3,103,037

\$ 3,324,214

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Board of Housing Commissioners
Albion Housing Commission
Albion, Michigan

I have audited the financial statements of the business-type activities of the Albion Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2005, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated June 15, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Housing Commission's, ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 05-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The reportable condition described above, I consider to be a material weakness.

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*
Albion Housing Commission
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 05-1.

I also noted certain additional matters that I reported to management of the Housing Commission, in a separate letter dated June 15, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bary E. Zaudke, CPA, PC

June 15, 2006

**Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Albion Housing Commission
Albion, Michigan

Compliance

I have audited the compliance of the Albion Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

As described in item 05-1 in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding cash management that are applicable to its Low Rent Program. Compliance with such requirements is necessary, in my opinion, for the Housing Commission, to comply with requirements applicable to that program.

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Albion Housing Commission
Page Two

Compliance - Continued

In my opinion, except for the noncompliance described in the preceding paragraph, the Housing Commission, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

I also noted certain additional matters that I reported to management of the Housing Commission, in a separate letter dated June 15, 2006.

Internal Control Over Compliance

The management of the Housing Commission, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the Housing Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 05-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider item 05-2 to be a material weakness.

Report of Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Albion Housing Commission
Page Three

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sam E. Staudt, CMAA, P.C.

June 15, 2006

ALBION HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 September 30, 2005
 =====

A. Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the Housing Commission.
2. Material weaknesses were identified during the audit of the financial statements.
3. There were instances of noncompliance material to the financial statements of the Housing Commission were discovered during the audit.
4. Material weaknesses were identified during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the Housing Commission expresses a unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) or OMB Circular A-133 are reported in this Schedule.
7. Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>	<u>Amount Expended</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Questioned Costs</u>	<u>Audit Finding</u>
14.850	Low Rent Public Housing	\$ 507,880	Yes	C B	N/A N/A	05-1 05-2
14.872	Capital Fund Program	<u>386,690</u>	Yes	O	N/A	N/A
	Total	<u>\$ 894,570</u>				

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Housing Commission was not determined to be a low-risk auditee.

ALBION HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2005
=====

B. Financial Statement Findings

Finding 05-2:

Criteria:

Michigan Department of Treasury regulations require that all invoices must be approved by the Board prior to payment unless otherwise addressed in a formal policy.

Statement of Condition:

The Housing Commission pays invoices on a weekly basis. The Board meets once a month.

Questioned Costs:

There are no questioned costs.

Perspective Information:

The Housing Commission's internal controls include check preparation by someone other than a check signer, software to prepare the checks, two check signers are required (including the Executive Director and a commissioner), the invoices are approved and examined by each check signer, and the Board approves a list of paid invoices at the monthly board meetings.

Cause and Effect:

If the Board approves the invoices (with approved exceptions) before they are paid, it provides another internal control. The Board is ultimately responsible for the expenditures being legal and authorized.

Recommendations:

The Board must approve all invoices prior to payment, unless addressed otherwise in a formal policy.

I recommend that the Board establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the Board for approval.

ALBION HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2005
=====

C. Federal Award Findings and Questioned Costs

Finding 05-1:

Criteria:

HUD has a statutory requirement that Housing Commission's have a depository agreement signed by each institution that it has accounts with.

Statement of Condition:

The Housing Commission had in previous years obtained depository agreements with the banks it has accounts with, but they are outdated and the new format that can be obtained on HUD's website should be used.

Questioned Costs:

There were no questioned costs.

Perspective Information:

The Housing Commission uses five different institutions for the deposit of cash. There was not a depository agreement using the the new format in place for any of the institutions.

Cause and Effect:

The Housing Commission is at risk that its deposits are not protected by collateral of the institution.

Recommendations:

I recommend that the Housing Commission obtain a depository agreement with each institution that it has deposits with. In addition, I recommend that the Housing Commission have the agreement specify an amount that is collateralized.

It should be noted that the Housing Commission had begun the process of obtaining these depository agreements from the institutions it has deposits with before my fieldwork was completed.

ALBION HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
September 30, 2005
=====

NONE

ALBION HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
September 30, 2005
=====

<u>Line Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			

There were no adjusting journal entries necessary.

ALBION HOUSING COMMISSION
INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

SEPTEMBER 30, 2005

ALBION HOUSING COMMISSION
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SEPTEMBER 30, 2005

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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Albion Housing Commission

I have audited the financial statements of the Albion Housing Commission ("Housing Commission") as of and for the year ended September 30, 2005, and have issued my report, thereon, dated June 15, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). There were no audit adjustments.

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Bary E. Landolt, CPA, PC

June 15, 2006

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Albion Housing Commission

I have audited the financial statements of the Albion Housing Commission ("Housing Commission") as of and for the year ended September 30, 2005, and have issued my report, thereon, dated June 15, 2006. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, PC

June 15, 2006

ALBION HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS

September 30, 2005

=====

Accounts Receivable - Tenants

The Housing Commission's accounts receivable from tenants as of September 30, 2005 was \$12,475. This receivable represents an average of \$57 per tenant. HUD has a guideline of \$15 per tenant to indicate when there may be a problem. As of June 1, 2006 the receivable was down to \$2,883, i.e. a \$13 per tenant average and within the guidelines of HUD.

I recommend that the Housing Commission continue to monitor the accounts receivable balance.

ALBION HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
September 30, 2005
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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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There were no adjusting journal entries necessary.